

FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Regulation D; Docket No. R-1113]

Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation D, Reserve Requirements of Depository Institutions, to reflect the annual indexing of the low reserve tranche and the reserve requirement exemption for 2002, and announces the annual indexing of the deposit reporting cutoff level that will be effective beginning in September 2002. The amendments decrease the amount of transaction accounts subject to a reserve requirement ratio of three percent in 2002, as required by section 19(b)(2)(C) of the Federal Reserve Act, from \$42.8 million to \$41.3 million of net transaction accounts. This adjustment is known as the low reserve tranche adjustment. The Board is increasing from \$5.5 million to \$5.7 million the amount of reservable liabilities of each depository institution that is subject to a reserve requirement of zero percent in 2002. This action is required by section 19(b)(11)(B) of the Federal Reserve Act, and the adjustment is known as the reservable liabilities exemption adjustment. The Board is also increasing the deposit cutoff level that is used in conjunction with the reservable liabilities exemption to determine the frequency of deposit reporting from \$101.0 million to \$106.9 million for nonexempt depository institutions. (Nonexempt institutions are those with total reservable liabilities exceeding the amount exempted from reserve requirements.) Thus, beginning in September 2002, nonexempt institutions with total deposits of \$106.9 million or more will be required to report weekly while nonexempt institutions with total deposits less than \$106.9 million may report quarterly, in both cases on form FR 2900. Exempt institutions with at least \$5.7 million in total deposits may report annually on form FR 2910a.

DATES: Effective dates: November 27, 2001 for depository institutions that report weekly; December 18, 2001 for depository institutions that report quarterly; and September 1, 2002 for the deposit reporting cutoff level.

Compliance dates: For depository institutions that report weekly, the low reserve tranche adjustment and the reservable liabilities exemption adjustment will apply to the reserve computation period that begins Tuesday, November 27, 2001, and the corresponding reserve maintenance period that begins Thursday, December 27, 2001. For institutions that report quarterly, the low reserve tranche adjustment and the reservable liabilities exemption adjustment will apply to the reserve computation period that begins Tuesday, December 18, 2001, and the corresponding reserve maintenance period that begins Thursday, January 17, 2002. For all depository institutions, the deposit cutoff level will be used to screen institutions in the second quarter of 2002 to determine the reporting frequency for the twelve month period that begins in September 2002.

FOR FURTHER INFORMATION CONTACT: Heatherun Allison, Counsel (202/452-3565), Legal Division, or June O'Brien, Economist (202/452-3790), Division of Monetary Affairs; for users of Telecommunications Device for the Deaf (TDD) only, please call 202/263-4869; Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551.

SUPPLEMENTARY INFORMATION: Section 19(b)(2) of the Federal Reserve Act (12 U.S.C. 461(b)(2)) requires each depository institution to maintain reserves against its transaction accounts and nonpersonal time deposits, as prescribed by Board regulations. The required reserve ratio applicable to transaction account balances exceeding the low reserve tranche is 10 percent. Section 19(b)(2) also provides that, before December 31 of each year, the Board shall issue a regulation adjusting the low reserve tranche for the next calendar year. The adjustment in the tranche is to be 80 percent of the percentage increase or decrease in net transaction accounts at all depository institutions over the one-year period that ends on the June 30 prior to the adjustment.

Currently, the low reserve tranche on net transaction accounts is \$42.8 million. Net transaction accounts of all depository institutions decreased by 4.3 percent (from \$619.3 billion to \$592.8 billion) from June 30, 2000, to June 30, 2001. In accordance with section 19(b)(2), the Board is amending Regulation D (12 CFR part 204) to decrease the low reserve tranche for transaction accounts for 2002 by \$1.5 million to \$41.3 million.

Section 19(b)(11)(B) of the Federal Reserve Act provides that, before December 31 of each year, the Board shall issue a regulation adjusting for the next calendar year the dollar amount of reservable liabilities exempt from reserve requirements. Unlike the adjustment for the low reserve tranche on net transaction accounts, which adjustment can result in a decrease as well as an increase, the change in the exemption amount is to be made only if the total reservable liabilities held at all depository institutions increase from one year to the next. The percentage increase in the exemption is to be 80 percent of the increase in total reservable liabilities of all depository institutions as of the year ending June 30. Total reservable liabilities of all depository institutions increased by 5.1 percent (from \$2,200.0 billion to \$2,313.1 billion) from June 30, 2000, to June 30, 2001. Consequently, the reservable liabilities exemption amount for 2002 under section 19(b)(11)(B) will be increased by \$0.2 million from \$5.5 million to \$5.7 million.^{1/}

The effect of the application of section 19(b) of the Federal Reserve Act to the change in the total net transaction accounts and the change in the total reservable liabilities from June 30, 2000, to June 30, 2001, is to decrease the low reserve tranche to \$41.3 million, to apply a zero percent reserve requirement on the first \$5.7 million of net transaction accounts, and to apply a three percent reserve requirement on the remainder of the low reserve tranche.

For institutions that report weekly, the tranche adjustment and the reservable liabilities exemption adjustment will be effective for the fourteen-day reserve computation period beginning Tuesday, November 27, 2001, and for the corresponding fourteen-day reserve maintenance period beginning Thursday, December 27, 2001. For institutions that report quarterly, the tranche adjustment

^{1/} Consistent with Board practice, the tranche and exemption amounts have been rounded to the nearest \$0.1 million.

and the reservable liabilities exemption adjustment will be effective for the seven-day computation period beginning Tuesday, December 18, 2001, and for the corresponding seven-day reserve maintenance period beginning Thursday, January 17, 2002.

In order to reduce the reporting burden for small institutions, the Board has established deposit reporting cutoff levels to determine deposit reporting frequency. In July 2000, the Board specified that the annual percentage increase in the nonexempt deposit cutoff be set equal to 80 percent of the growth rate of total deposits at all depository institutions over the one-year period ending on the most recent June 30.

From June 30, 2000, to June 30, 2001, total deposits increased 7.3 percent, from \$5,216.0 billion to \$5,596.6 billion. Accordingly, the nonexempt deposit cutoff level will increase by \$5.9 million from \$101.0 million in 2001 to \$106.9 million in 2002. Based on the indexation of the reservable liabilities exemption, the cutoff level for total deposits above which reports of deposits must be filed will rise from \$5.5 million to \$5.7 million. Under the deposit reporting system, institutions are screened during each year to determine their reporting category beginning in the September of that year. Hence, the cutoff level would be used in the 2002 deposit report screening process and new deposit reporting panels will be implemented in September 2002.

Thus, effective in September 2002, all U.S. branches and agencies of foreign banks and Edge and agreement corporations, regardless of size, and other institutions with total reservable liabilities exceeding \$5.7 million (nonexempt institutions) and with total deposits at or above \$106.9 million would be required to file weekly the Report of Transaction Accounts, Other Deposits and Vault Cash (form FR 2900). Nonexempt institutions with total deposits below \$106.9 million could file the FR 2900 quarterly. Institutions that obtain funds from non-U.S. sources or that have foreign branches or IBFs would continue to be required to file the Report of Certain Eurocurrency Transactions (forms FR 2950/FR 2951) at the same frequency as they file the form FR 2900. Institutions with reservable liabilities at or below the exemption amount of \$5.7 million (exempt institutions) and with at least \$5.7 million in total deposits would be required to file the Annual Report of Total Deposits and Reservable Liabilities (form FR 2910a). Institutions with total deposits below the exemption level of \$5.7 million would be excused from reporting if their deposits can be estimated from other data sources.

Finally, the Board may require a depository institution to report on a weekly basis, regardless of the cutoff level, if the institution manipulates its total deposits and other reservable liabilities in order to qualify for quarterly reporting. Similarly, any depository institution that reports quarterly may be required to report weekly and to maintain appropriate reserve balances with its Reserve Bank if, during its computation period, it understates its usual reservable liabilities or overstates the deductions allowed in computing required reserve balances.

Notice. The provisions of 5 U.S.C. 553(b) relating to notice of proposed rulemaking have not been followed in connection with the adoption of these amendments. The amendments involve expected, ministerial adjustments prescribed by statute and by the Board's policy concerning reporting practices. In addition, the reservable liabilities exemption adjustment and the increases for reporting purposes in the deposit cutoff levels reduce regulatory burdens on depository institutions, and the low reserve tranche adjustment will have a de minimis effect on depository institutions with net transaction accounts exceeding \$41.3 million. Accordingly, the Board finds good cause for determining, and so determines, that notice in accordance with 12 U.S.C. 552(b) is unnecessary.

Regulatory Flexibility Analysis

The Board certifies that these amendments will not have a substantial economic impact on small depository institutions.

List of Subjects in 12 CFR Part 204

Banks, banking, Reporting and recordkeeping requirements

For the reasons set forth in the preamble, the Board is amending 12 CFR part 204 as follows:

**PART 204 -- RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS
(REGULATION D)**

1. The authority citation for part 204 continues to read as follows:

Authority: 12 U.S.C. 248(a), 248(c), 371a, 461, 601, 611, and 3105.

2. Section 204.9 is revised to read as follows:

§ 204.9 Reserve requirement ratios.

(a) Reserve percentages. The following reserve ratios are prescribed for all depository institutions, Edge and Agreement corporations, and United States branches and agencies of foreign banks:

Category	Reserve requirement ^{1/}
Net transaction accounts:	
\$0 to \$41.3 million	3 percent of amount.
over \$41.3 million	\$1,239,000 plus 10 percent of amount over \$41.3 million.
Nonpersonal time deposits	0 percent.
Eurocurrency liabilities	0 percent.

(b) Exemption from reserve requirements. Each depository institution, Edge or agreement corporation, and U.S. branch or agency of a foreign bank is subject to a zero percent reserve

^{1/} Before deducting the adjustment to be made by the paragraph (b) of this section.

requirement on an amount of its transaction accounts subject to the low reserve tranche in paragraph (a) of this section not in excess of \$5.7 million determined in accordance with § 204.3(a)(3).

By order of the Board of Governors of the Federal Reserve System,
October 12, 2001.

(signed) Jennifer J. Johnson

Jennifer J. Johnson,
Secretary of the Board.